

CHAPTER 11. INSURANCE BENEFITS AND TERMINATION OF INSURANCE

11-1. INTRODUCTION. This Chapter explains the formula HUD uses for computing insurance benefits; the procedures lenders must follow for preparing and filing claims; and how HUD pays insurance benefits. This Chapter also explains HUD's and GNMA's remedies if a lender-issuer defaults in its obligations to holders of GNMA securities backed by coinsured mortgages. The last Section of this Chapter sets forth HUD's policies and procedures relating to termination of insurance.

Section 1. Computation of Insurance Benefits

11-2. OVERVIEW OF FORMULA FOR COMPUTING INSURANCE BENEFITS

a. HUD will compute insurance benefits by:

- (1) calculating the principal balance of the mortgage unpaid as of the date of the institution of foreclosure proceedings or the date of the acquisition of the property by deed-in-lieu of foreclosure;
- (2) adding all items listed in Paragraph 11-3; and
- (3) subtracting all items listed in Paragraph 11-4.

b. If the lender has not reinsured its coinsurance risk or has reinsured 50% of its coinsurance risk, HUD will pay insurance benefits equal to 85% of the amount computed under Paragraph 11-2.a. If the lender has reinsured either 100% of its coinsurance risk or an amount equal to the maximum which the State law authorizes the insurer to insure, HUD will pay insurance benefits equal to 72.25% of the amount computed under Paragraph 11-2.a. HUD will compute insurance benefits on the basis of the amount of reinsurance in effect on the date of default.

11-3. ITEMS INCLUDED IN COMPUTING INSURANCE BENEFITS. In computing insurance benefits, HUD will add the following items to the unpaid principal balance of the mortgage.

a. The amount the lender paid from its own funds for:

- (1) taxes, special assessments and water charges which are liens prior to the mortgage;
- (2) fire and hazard insurance on the property; and
- (3) any mortgage insurance premiums paid after the date of default.

However, HUD will not reimburse the lender for any interest, late charge or other penalties imposed because of the lender's failure to make the required payments when due.

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- b. An amount equivalent to mortgage interest on the principal balance outstanding as of the date the lender initiated foreclosure proceedings or the date the lender acquired title to the property through deed-in-lieu of foreclosure. This interest will be payable from the date of default to the date of settlement.
  - c. An amount equal to two-thirds of the costs which the lender actually paid in acquiring the property and which HUD approves. Such costs may not include loss or damage resulting from the invalidity or unenforceability of the mortgage lien or the unmarketability of the mortgagor's title.
  - d. Reasonable payments which the lender made from its own funds for:
    - (1) preservation, operation and maintenance of the property;
    - (2) repairs that were completed in accordance with Paragraph 10-10.a; and
    - (3) expenses in connection with the sale of the property.
- 11-4. ITEMS DEDUCTED IN COMPUTING INSURANCE BENEFITS. In computing insurance benefits, HUD will deduct the following items from the sum of the unpaid principal balance and the items listed in Paragraph 11-3.
- a. An amount equal to 5% of the principal balance outstanding on the date the lender instituted foreclosure or acquired title to the property through deed-in-lieu of foreclosure.
  - b. All payments on account of the mortgage which the lender received after instituting foreclosure or acquiring title by deed-in-lieu of foreclosure, except those received pursuant to a reinsurance contract.
  - c. All deposits, escrows, cash or funds which the lender holds or is entitled to receive on behalf of the mortgage account. However, if the mortgage is used to back GNMA securities, funds held in the lender-issuer's custodial accounts or as collateral funding for a GNMA Deposit Agreement will not be deducted. (See Chapter 16 of GNMA Handbook 5500.1 REV-5, GNMA Mortgage-Backed Securities Guide).
  - d. The amount of any undrawn balance under any letter of

credit the lender had accepted in lieu of a cash deposit for an escrow agreement.

- e. Any net income derived from the mortgaged property and received by the lender after the date of default.
- f. Either the proceeds from the sale of the project or the higher of the two appraised values determined in accordance with Paragraph 10-7, as follows.

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- (1) If the lender disposed of the project through a negotiated sale, the amount deducted will be the higher of the sales price or the appraised value.
  - (2) If the the lender disposed of the project in accordance with Chapter 10's competitive bid procedures, the amount deducted will be the sales price, even if the sales price is lower than the appraised value.
  - (3) If the lender has not disposed of the property within 12 months after the date of acquisition, the amount deducted will be the appraised value.
- g. Any and all claims which the lender has acquired in connection with the acquisition and sale of the property. Such claims include returned premiums from cancelled insurance policies, interest on investments of reserve for replacements funds, tax refunds, refunds of deposits left with utility companies, amounts received as proceeds of a receivership, etc.

#### Section 2. Procedures For Filing Insurance Claims

11-5. GENERAL. Following receipt of the lender's notice of intent to file a claim, HUD's Office of Finance and Accounting (OFA) will send the lender forms and instructions for filing a claim for insurance benefits. The lender may file for insurance benefits only after it has sold the property or 12 months have elapsed since the date the lender acquired title to the property. The lender must file the claim no later than 15 days after the earlier of the date of sale or the date the 12 month period expired. This Section describes each of the forms the lender must complete and the supporting documentation that must accompany the claim. These forms and detailed instructions for their completion are shown in Appendices 29 through 32. Exhibit 11-1 summarizes the items the lender must include in its claim application and the required number of copies for each item.

11-6. CLAIM CERTIFICATION AND IDENTITY OF INTEREST DISCLOSURE STATEMENT. The text of this Certification is shown in Appendix 29.

a. Contents. In signing this Form, the lender does the following:

- (1) Certifies that:
  - (a) all information in the claim and supporting documentation is true, complete and correct;
  - (b) the acquisition, management, repair and disposition of the property were handled in accordance with HUD regulations and administrative procedures;
  - (c) no kickbacks were paid;

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- (d) the required appraisals were done by independent appraisers; and
  - (e) the lender has no identity-of-interest with any party other than as described in the certification.

(2) Discloses whether it has an identity-of-interest with any individual or business entity that was involved in the acquisition, management, repair and disposition of the property.

(3) Provides the following information regarding any reinsurance the lender may have obtained:

- (a) reinsurance coverage and carrier at endorsement;
- (b) any changes in reinsurance coverage or carrier during the life of the mortgage; and
- (c) current reinsurance coverage and carrier.

b. Required Documentation. If the lender obtained reinsurance, the lender must submit copies of all reinsurance policies.

11-7. APPLICATION FOR COINSURANCE BENEFITS AND FISCAL DATA IN SUPPORT OF CLAIM This Form is shown in Appendix 30. The lender uses Form HUD-27008 to summarize all of the components of the coinsurance claim except accrued interest. HUD will compute accrued interest at the time of settlement. The lender should prepare this Form only after completing all of the supporting schedules discussed in Paragraphs 11-8 through 11-13.

11-8. ALLOCATION OF MORTGAGE RECEIPTS AND DISBURSEMENTS  
(SCHEDULE A). This Form is shown in Appendix 31a.

- a. Contents. The lender uses Form HUD-2744A to list and describe all mortgage transactions from the date the claimant became the mortgagee to the earlier of the date of sale or 12 months after the date of acquisition. This Schedule must show all receipts and disbursements, including any lender advances, for principal, interest, MIP, hazard insurance, water charges, ground rents, the reserve for replacements and other items the mortgage requires the mortgagor to pay.
- b. Required Documentation. The lender must submit the following documentation to support the amounts shown on Schedule A:
  - (1) receipts or invoices, showing check number and date paid, for:
    - (a) any lender advances not repaid prior to the date of default; and
    - (b) all disbursements made on or after the date of default;

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- (2) copies of the lender's ledger record cards showing all mortgage transactions; and
  - (3) explanation for delay in start-up of accounting if there is a lapse of more than five days between the date the lender acquired the mortgage and the date the lender's accounting begins.

11-9. MORTGAGEE'S REPORT OF PROJECT COLLECTIONS (SCHEDULE B). This Form is shown in Appendix 31b.

- a. Contents. The lender uses Form HUD-27009B to list and describe all rent collections, forfeited tenant security deposits and other income collected on behalf of the project. The report must cover the period from the date the lender took control of the project to the earlier of the date of sale or 12 months after the date the lender acquired title to the property. NOTE: HUD will accept computer-generated reports of project income in lieu of Schedule B, if the computer reports (1) provide all the information required, (2) follow the format of Schedule B, and (3) are legible.
- b. Required Documentation. The lender must submit a separate accounting for all security deposits on hand as of the earlier of the date of sale or the date 12 months after the

date the lender acquired the property.

11-10. MORTGAGEE'S REPORT OF PROJECT DISBURSEMENTS (SCHEDULE C).  
This Form is shown in Appendix 31c.

- a. Contents. The lender uses Form HUD-2744C to describe and list in chronological order all disbursements for reasonable operating expenses which the lender made during its control or ownership of the project. Expenses which were reported on Schedule A must not be shown on this Schedule. The lender must prepare a separate disbursement report for each month it controlled or owned the project.  
NOTE: HUD will accept computer-generated reports of project disbursements in lieu of Schedule C, if the computer reports (1) provide all the information required, (2) follow the format of Schedule C, and (3) are legible.
- b. Required Documentation. The lender must submit the following documentation to support the amounts shown on Schedule C:
  - (1) Receipts or invoices, showing check number and date paid, for all project disbursements during the period the lender controlled the project; and
  - (2) Copies of the lender's ledger record cards showing all project disbursements.

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11-11. OTHER DISBURSEMENTS BY MORTGAGEE (SCHEDULE D) This Form is shown in Appendix 31d.

- a. Contents. The lender uses Form HUD-27009D to list and describe all reasonable disbursements made by the lender from its own funds for the acquisition, preservation, protection, repair and disposition of the project. Expenses reported on Schedules A or C must not be shown on this Schedule.
- b. Required Documentation. The lender must submit the following documentation to support amounts shown on Schedule D:
  - (1) Receipts or invoices, showing check number and date paid, for all disbursements shown on the Schedule; and
  - (2) If expenditures for repairs in excess of a cumulative average of \$500 per unit are shown on Schedule D, HUD's approval letter authorizing those repairs.

11-12. MORTGAGEE'S REPORT OF SPECIAL ESCROW (SCHEDULE E).  
This Form is shown in Appendix 31e.

- a. Contents. The lender uses Form HUD-2744E to show the original amount, amounts disbursed, and balance on hand for the following special accounts:
- (1) Completion escrow or letter of credit;
  - (2) Operating deficit escrow or letter of credit;
  - (3) MIP that HUD has refunded to the lender; and
  - (4) Residual receipts.
- b. Required Documentation. The lender must submit copies of its ledger records showing all receipts and disbursements from the special accounts identified in Schedule E.

11-13. MORTGAGEE'S REPORT OF NET SALES PROCEEDS (SCHEDULE F). This Form is shown in Appendix 31f.

- a. Contents. Except as provided in Paragraph 11-13.b., the lender must use Form HUD-27009F to show the net proceeds from the sale of the project. Generally, the lender must prorate income and expenses in the manner customary for real estate sales transactions. However, the lender should not deduct any real estate commission or other disposition costs. These amounts are shown on Schedule D, Other Disbursements by Mortgagee.
- b. Use of Appraised Value in Lieu of Sales Price. Under the following circumstances the lender must use the higher of the two appraised values as a substitute for the sales price on Schedule F.

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- (1) The lender sold the project through a negotiated sale and the sales price was less than the higher of the two appraised values; or
  - (2) 12 months have elapsed since the date the lender acquired the property and the lender has not yet sold the property.
- c. Required Documentation. The lender must submit the following documentation to support the amounts shown on Schedule F:
- (1) Copies of the two required appraisals
  - (2) If the project has been sold,
    - (a) Copy of sales contract
    - (b) Copy of settlement statement

- (3) If the project has not been sold, documentation to support the prorated expenses.

11-14. CERTIFICATION FOR SALE BY COMPETITIVE BID. This Certification is shown in Appendix 32. The lender must execute this Form only if the property was sold by competitive bid.

- a. Contents. The lender uses this Form to certify that it has complied with HUD's procedures for competitive sales and to provide HUD with information on the sale (e.g., how and when the project was advertised; number of inquiries received; date of bid opening; and number of bids received).

- b. Required Documentation. The following documentation must be attached to this Certification.

- (1) Control log required by Paragraph 10-15.e.(9) of this Handbook; and

- (2) Tabulation of bids required by Paragraph 10-15.e.(10) of this Handbook.

11-15. DOCUMENTATION OF RECEIVERSHIP. If a receiver has operated the property, the lender must furnish the following documentation:

- a. court order appointing the receiver;

- b. receiver's accounting reports or reports to the court;

- c. court orders approving the receiver's accounting; and

- d. court orders discharging the receiver, fixing fees and cancelling the receiver's bond.

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### Section 3. How HUD Pays Insurance Benefits

11-16. CLAIM SETTLEMENT STATEMENT. HUD will compute the claim settlement based on the lender's application, supporting schedules and required documentation. HUD will give the lender a Mortgage Insurance Claim Settlement Statement and Voucher which will show HUD's computation of the claim and any adjustments made. HUD will provide an explanation of any adjustments it makes in the lender's claim computation.

11-17. METHOD OF PAYMENT. HUD will pay insurance claims in cash unless the lender files a written request for payment in debentures. Whenever HUD makes payment in debentures, the debentures will:

- a. be issued as of the date of default, as defined in Paragraph 9-5.
- b. be registered as to principal and interest.
- c. mature 20 years from the date of issue.
- d. be issued in multiples of \$50. If the difference between the amount of insurance benefits to which the lender is entitled and the aggregate face amount of the debentures is less than \$50, HUD will pay such difference in cash.
- e. bear debenture interest from the date of issue, payable semi-annually on the first day of January and the first day of July of each year. The debenture interest rate will be the higher of the rate in effect on the date the lender issued the commitment to coinsure or the rate in effect on the date of endorsement.

Section 4: Remedies for Default by a Lender-Issuer Under the GNMA Mortgage-Backed Securities Program

11-18. INDEMNIFICATION OF GNMA. If, after HUD pays a coinsurance claim, the lender-issuer fails to pay the full amount owed to a holder of GNMA securities backed by the coinsured mortgage, HUD will reimburse GNMA for the amount GNMA must pay security holders as a result of the lender's default in payment. This amount will not exceed the sum of (1) the 5 percent deductible discussed in Paragraph 11-4.a. and (2) the lender's coinsurance risk share (i.e., 15 or 27.75 percent of the amount computed under Paragraph 11-2.a.). HUD will make such payments in cash. After HUD pays GNMA, the lender-issuer will have no claim against HUD for any such funds.

11-19. HUD ACTIONS. If HUD is required to make payments to GNMA because of the lender-issuer's failure to pay any amount owed to a holder of GNMA securities backed by a coinsured mortgage, HUD will have the right to take the following actions.

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- a. Withdrawal of Mortgagee Approval. The Assistant Secretary for Housing/Federal Housing Commissioner may request that the Mortgagee Review Board terminate the lender-issuer's status as a HUD-approved mortgagee, as provided in 24 CFR Part 25.
  - b. Recourse Against Lender-Issuer. HUD may institute legal action against the lender-issuer to recover the amounts HUD paid to GNMA because of the lender-issuer's default.

11-20. GNMA RIGHT TO ASSIGNMENT. If the lender-issuer defaults on

its obligations under the GNMA Mortgage-Backed Securities Program, GNMA may require the defaulting lender-issuer to assign all coinsured mortgages that back GNMA securities to another coinsuring lender-issuer or to GNMA.

- a. For any coinsured mortgage which is not in default and is held by a defaulting lender-issuer, GNMA will first attempt to assign the mortgage to another eligible coinsuring lender. GNMA will do this by asking other coinsuring lenders which are also GNMA issuers to assume the defaulting lender-issuer's rights and obligations under the mortgage. If GNMA rejects all such offers as nonresponsive or otherwise unacceptable, or if no offers are received, GNMA will have the right to assign the mortgage to itself.
- b. For any coinsured mortgage which is in default and held by a defaulting lender-issuer, GNMA will have the right to perfect an assignment of the coinsured mortgage directly to itself before extinguishing the mortgage by completing foreclosure or acquiring title by deed-in-lieu of foreclosure.
- c. GNMA will give HUD written notice within 30 days after taking a mortgage by assignment to allow for endorsement and necessary changes in HUD's records. HUD will endorse any mortgage assigned to GNMA as provided in this Paragraph for full insurance in accordance with the appropriate provisions of 24 CFR Part 207. The endorsement will be effective as of the date of assignment. Any future insurance claim by GNMA or any assignment of the fully insured mortgage will be governed by the appropriate provisions of 24 CFR Part 207, except that HUD will pay the insurance benefits in cash instead of debentures.

#### Section 5: Termination of Mortgage Insurance

- 11-21. TERMINATION OF COINSURANCE CONTRACT. The contract of coinsurance will terminate if any of the events listed below occurs. When the coinsurance contract is terminated, all of the rights and obligations of the owner and the lender, including the obligation to pay MIP, will terminate.
- a. The mortgage is paid in full.
  - b. The lender acquires the mortgaged property and notifies HUD that it will not make a claim for insurance benefits.
  - c. The mortgagor redeems the property after foreclosure.

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- d. A party other than the lender acquires the property at a foreclosure sale.

- e. The mortgagor and lender jointly request termination.
- f. The lender, or its successors or assigns, commits fraud or makes a material misrepresentation to HUD with respect to the contract of coinsurance on the mortgage.

11-22. REQUEST FOR TERMINATION. If the mortgage is prepaid in accordance with the provisions of Paragraph 2-5 of this Handbook or if the owner and the lender voluntarily elect to terminate the mortgage insurance, the lender must prepare Form HUD-9807, Request for Termination of Multifamily Mortgage Insurance. If the mortgage insurance is terminated for other circumstances (i.e., per Paragraph 11-21.b., c., d. or f.), this Form is not required. The Request for Termination is shown in Appendix 33. Instructions for preparing Form HUD-9807 are shown on the back of the form. The lender must send one copy of the Request for Termination to each of the following:

Loan Management Branch Chief  
Local HUD Field Office  
and  
Director, Insurance Operations Division  
Attention: Multifamily Mortgage Branch  
Office of Finance and Accounting  
U. S. Department of Housing and Urban Development  
Washington, DC 20410

11-23. NOTICE AND DATE OF TERMINATION BY HUD. HUD will notify the lender that the contract of coinsurance has been terminated and will establish the effective termination date. The termination date will be the last day of the month in which any of the events listed in Paragraph 11-21 a. through f. occur.

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EXHIBIT 11-1

DOCUMENTS THE LENDER MUST SUBMIT WHEN FILING A CLAIM FOR INSURANCE  
BENEFITS

All claims must include:

Claim Certification and Identity-of-Interest Disclosure Statement (Appendix 29)	Original and 2 copies
Application for Insurance Benefits and Fiscal Data in Support of Claim (Appendix 30)	Original and 3 copies
Schedules A through F (Appendices 31a through 31f)	Original and 2 copies

Supporting Documentation for Schedules  
A through F (See list at end of  
instructions for preparing each form) 1 Copy

Include only if applicable:

Certification for Sale by Competitive Bid Original and 2 copies  
(Appendix 32)

Information on Receivership 1 Copy

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